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## **Don't think your clients use prediction markets? Don't bet on it**

By Rob Burgess

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Prediction markets, which allow users to trade contracts on the future outcome of everything from politics to weather, are seemingly popping up everywhere.

This week one of the most popular platforms, Kalshi, signed partnership deals with TV news channels CNN and CNBC to incorporate probability data into news coverage starting next year. Another, Polymarket, recently announced integrations with Bloomberg and financial services company Intercontinental Exchange, the latter of which made a \$2 billion investment. And earlier this year, Robinhood opened a prediction markets hub inside its popular app.

Kalshi claims to have millions of weekly users; Polymarket, around 480,000 monthly users.

The upshot for advisors: Many clients may soon be encountering these platforms, if they haven't already. Experts say it's important to frame using these speculative instruments in the proper context so they don't undermine a carefully thought-out financial plan.

### **What to tell clients about prediction markets**

In his work, Braden Perry, partner at law firm Kennyhertz Perry in Mission Woods, Kansas, advises clients on derivatives, emerging financial products and regulatory risk. (The "event contracts" offered by prediction markets are considered a type of derivative.) He said he has seen increasing interest in event-based contracts on platforms like Kalshi.

"Most clients approach these markets out of curiosity rather than as a core investment strategy, and I typically see very small dollar amounts," he said. "Their experiences tend to mirror retail options trading: some early wins that feel exciting, followed by the realization that these markets require discipline, probability-based thinking and an understanding of the underlying mechanics."

Serving mainly high net worth tech professionals, Alex Caswell, wealth planner, founder and CEO of Wealth Script Advisors in San Francisco, said some of his clients have gotten involved in prediction markets, which he considers a double-edged sword.

"Gambling using financial markets can lead to horrible outcomes for individuals that can destroy their financial well-being and land them in debt," he said.

Perry, a former senior trial attorney with the U.S. Commodity Futures Trading Commission, said he views regulated prediction markets as an extension of

derivatives rather than as a form of gambling.

"The challenge is that they can easily be perceived as entertainment rather than risk management," he said. "The simplicity of the contracts combined with heavy news engagement makes them appealing, but it can also encourage overtrading and emotional decision-making."

When clients ask, Perry said his guidance is to treat these markets like any speculative instrument: Size positions conservatively and understand that liquidity and pricing can move quickly.

"I remind clients that these platforms are not a substitute for a diversified investment plan," he said.

### **How prediction markets could evolve**

Kalshi co-founder and CEO Tarek Mansour raised eyebrows this week when he told the audience of the Future of Global Markets 2025 conference that his ultimate goal was to "financialize everything and create a tradable asset out of any difference in opinion."

That raises broader questions, Perry said.

"On one hand, markets can improve forecasting by aggregating information," he said. "On the other hand, turning every disagreement into a tradeable position can create unhealthy incentives, especially around political or socially sensitive events. The regulatory framework matters and exchanges must balance innovation with safeguards that prevent these products from drifting into gamification."

If prediction markets can be securitized, Caswell said, it could create a new investment product potentially uncorrelated to other assets.

"These prediction markets can also be used as a hedge for financial institutions, companies, politicians and more," he said. He added that they could potentially serve as a replacement for (or enhancement to) election and other polls, a trend underscored by the recent news partnerships.

### **Pay attention to the signals from prediction markets**

Kaledora Kiernan-Linn, co-founder and CEO of self-custodial leveraged trading platform Ostium, said the real power of prediction markets isn't the ability to trade on the events themselves, but rather the probability data they generate.

"It allows traders to use event probabilities the same way they use prices in traditional limit orders," she said. "Instead of saying, 'Trade if the price hits X,' you could say, 'Trade if the probability of this event hits X.'"

Kiernan-Linn cited Polymarket's recent integrations with major financial data providers as evidence that institutions increasingly view these probabilities as

high-quality signals.

"Even more so than trading the event outcomes themselves, large institutions are interested in the information they produce," she said. "They see prediction markets as an increasingly reliable gauge of truth."